

VZCZCXYZ0000
RR RUEHWEB

DE RUEHMU #2565/01 3262304
ZNR UUUUU ZZH
R 222304Z NOV 06
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 8271
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEHBO/AMEMBASSY BOGOTA 1482
RUEHBR/AMEMBASSY BRASILIA 0085
RUEHCV/AMEMBASSY CARACAS 0823
RUEHME/AMEMBASSY MEXICO 4078
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHEBAA/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHDC

UNCLAS MANAGUA 002565

SIPDIS

SENSITIVE
SIPDIS

STATE FOR WHA/FO, WHA/CEN, WHA/EPSC, EB AND INR

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [EINV](#) [PGOV](#) [NU](#)
SUBJECT: ORTEGA SENDS FIRST ECONOMIC SIGNALS

REF: A. MANAGUA 2463

[1](#)B. MANAGUA 2428

[1](#)1. (U) Summary: Starting November 8, President-elect Daniel Ortega delivered several public and private messages aimed at reassuring listeners that his next presidency will not represent a return to the Marxism of his past. He emphasized that there would be no "dramatic changes" in Nicaragua's economic system, that current IMF, WB and IDB programs would continue, and showed an interest in negotiating a new Poverty Reduction and Growth Facility (PRGF) agreement. In public statements Ortega focused on his willingness to promote pro-business policies and maintain respect for private property. He stated he would continue with CAFTA, but would explore other markets like China, India, Mercosur, and Venezuela's ALBA. Ortega and his team also met with donors providing budget support, IFI resident representatives and Nicaragua's Executive Director in the IMF. In all of his meetings and speeches in the last two weeks, Ortega tied his pro-business and economic stability statements to his anti-poverty plans, emphasizing that he needed to promote policies that encouraged investment and growth because he could not eliminate poverty with a stagnant economy. For now, the IFIs, donors and the business community seem satisfied, expressing cautious optimism. Experience has taught them, however, that Ortega's actions, including the naming of his economic cabinet, will speak more loudly than his words. For now, Nicaraguans prefer to believe in Ortega's desire to "pay his debt" to them by eradicating poverty. End Summary.

Ortega Promises to Stay the Course

[1](#)2. (U) As soon as his win was assured, President-elect Daniel Ortega set out to meet with local and international business leaders, resident representatives of the IFIs, and major western donors providing budget support. He also visited a major industrial site. Ortega's meetings and public statements on economic policy seem to have been strategically designed to reassure foreign investors and the local business community that his next presidency will not resurrect the Marxist policies that typified his first tenure in office. Before the election, bankers, investors, and leading business

people warned that an Ortega victory would lead to an immediate withdrawal from the country of much of Nicaragua's capital. So far, Ortega has succeeded in quelling such fears.

¶3. (U) In a November 8 press conference with Ortega, President Bolanos noted the many economic successes in Nicaragua since the 1980s. In particular, he highlighted improved macroeconomic stability, increased trade and investment, and rising international reserves. Inflation is under control and the currency stable. Bolanos explained that these achievements were the result of structural adjustment programs, international trade agreements, strong fiscal discipline, and forward-leaning regulatory changes.

¶4. (U) Ortega responded to Bolanos by acknowledging these achievements and committing his government to maintaining and improving upon Bolanos' macroeconomic gains. He proclaimed that he would make no "dramatic or radical changes" in Nicaragua's economic system, and promised to respect Nicaragua's agreements with the IMF, IDB, and World Bank. Ortega declared that his overarching goal for his second presidency was to "pay his debt to the Nicaraguan people" by eradicating poverty. He called upon Nicaragua's "economic actors" to work with him to achieve this goal.

¶5. (U) That same day, Ortega met with a group of 150 business persons representing some of the largest investments in the country, and delivered a pro-business message. He repeated his pledge not to make any radical changes to macroeconomic policies currently in place. Ortega said that while he would continue working with CAFTA, he would explore other markets like China, India, Mercosur, and Venezuela's ALBA to find alternatives for producers currently "marginalized" by CAFTA provisions. (Note: He did not elaborate as to how or which producers are marginalized. End Note.) He stated that his government would respect private property in its effort to meet the demands of the social sector through legal and constitutional means, i.e., without engaging in the kind of land grabs that characterized his first presidency. He promised to promote growth by supporting laws and policies that would attract bigger and better investments to Nicaragua. In each instance, Ortega tied his statements to an anti-poverty theme, explaining that he would promote policies that encouraged investment and growth because he could not eliminate poverty if private enterprise or the banking system did not function. Ortega then invited the business sector to work with him to create jobs and end poverty.

¶6. (U) That night at a celebratory rally, Ortega repeated to his supporters the message that private property must be respected and that land invasions were not acceptable. He promised the crowd that anyone without land would receive it, but that it would have to happen in an orderly and legal fashion. This time around, the government would buy property and then deliver it, with full legal title and farming implements, to those without land.

Meeting the Right Folks, Saying the Right Things

¶7. (U) The week of November 13, Ortega met with local bankers, donors providing budget support, a major U.S. textile investor, IFI resident representatives, as well as Nicaragua's own Executive Director to the IMF. In addition, his economic transition team met with a visiting IMF Mission in town for a final assessment of Nicaragua's performance under its PRGF, which concludes December 12. In these encounters, Ortega and his transition team repeated the themes of maintaining macroeconomic stability and continuing pro-business policies. Ortega consistently linked maintaining macroeconomic stability to his goal of fighting poverty, stressing that macroeconomic stability should not be viewed as a goal in and of itself. One of the week's events included a very public visit to the free trade zone construction site of U.S. firm Cone Denim's USD 80 million factory.

18. (SBU) On November 14, Ortega met with Nicaragua's IMF Executive Director and on November 17, he met with the resident representatives of the IMF, World Bank, and IDB. At both meetings he repeated the statements that his government would continue on-going programs and not make dramatic changes to the macroeconomic policies currently in place. Members of Ortega's economic team told the visiting IMF Mission on November 15 that Ortega's government would like to explore the possibility of entering into a new three-year PRGF program, one that would fit with the FSLN's "Plan de Gobierno" and put Nicaragua on the path of no longer needing IMF programs.

O.K. for Now, We'll Wait and See

19. (U) Formal responses from the outgoing government and private sector to Ortega's statements have been conciliatory, emphasizing a desire to work together for the common good of Nicaragua. President Bolanos, echoing Eduardo Montealegre's concession speech, stated that he stood ready to support the incoming government in its efforts to combat poverty as a "constructive" member of the opposition. (Note: Bolanos later announced that, as ex-president, he would accept his "automatic" seat in the National Assembly. End Note.) The Council of Private Enterprise (COSEP) promised to work with the Ortega administration to develop Nicaragua and help the country grow. Three of Nicaragua's top bankers, including Roberto Zamora of Bancentro, Luis Rivas of Banpro, and Silvio Lanuza of Banco de Finanzas stated that Ortega's pronouncements were welcomed and would help to stabilize the financial system after the election. Indeed, after a pre-election drop of over 6%, bankers report that deposits have stabilized (reftel A). The bankers emphasized that Ortega would have to keep the current macroeconomic policies in place to ensure the financial system remains healthy and stable. Budget Support Group donors welcomed the positive signals so far, but have expressed concern over Ortega's lack of public pronouncements on corruption and judicial independence. Donors emphasized these two issues during their meeting with Ortega, presenting them as fundamental principles of the budget support program and essential for the development of a strong investment climate.

Comment: Actions Speak Louder Than Words

110. (SBU) Ortega's first economic policy statements after the election appear to mark a shift toward the center and away from the Marxist ideology of his past. They may also be a tacit acknowledgment that 62% of the electorate did not vote for him, and that most Nicaraguans are comfortable with current economic policy. In all of his meetings, speeches, and press interviews Ortega has consistently supported staying the current macroeconomic course, working with IFIs, promoting foreign and domestic investment, and expanding free trade. However, at every turn he ties his support to a promise to reorient the government toward serving the poor and eradicating poverty. In particular, he focuses on creating jobs, improving access to credit for small and medium-sized farmers and business persons, enhancing Nicaragua's contribution to production and value chains, providing electricity to all, launching preventative health campaigns and literacy programs, as well as diversifying agricultural and industrial production.

111. (SBU) The reaction of the private sector to these messages so far has been one of cautious optimism. Private investors wonder whether the policies Ortega thinks will stimulate the economy and promote investment are ones that they can support. Here, actions will speak louder than words. All are waiting to see who Ortega names to key positions in his economic cabinet. Rumors abound, up to and including everything from keeping Bolanos' team in place to a complete overhaul. Most believe that Ortega will ask former

Sandinista Mario Arana to stay on as Central Bank President. Other rumored holdovers include Finance Minister Mario Flores, Internal Revenue Director Roger Arteaga and Institute of Tourism Director Maria Nelly Rivas. However, a more likely Minister of Finance may be FSLN stalwart Bayardo Arce. Other names which have surfaced are Silvio Conrado for Minister of Trade and Industry and Virgilio Silva for Director General of Customs.

¶12. (SBU) Nicaragua's reality is that Sandinismo has always been famous for its "double discourse," taking actions that contradict spoken promises. While some Nicaraguans fear that the contradictions of the 1980s will repeat themselves, for the time being most prefer to believe that Ortega wants to build on existing economic gains so that he can "pay his debt to the Nicaraguan people," i.e., eradicate poverty in the hemisphere's second poorest country. Indeed, Ortega has a once in a lifetime opportunity to replace his legacy of destruction and abject poverty with one of growth, development, and the creation of an emerging middle class. End Comment.
TRIVELLI